

Message Text

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ACTION SS-20

INFO OCT-01 EUR-25 EA-11 ISO-00 EB-11 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 IO-14

SCI-06 FEA-02 INT-08 OMB-01 TRSE-00 DRC-01 /142 W

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O R 201005Z JAN 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 2807

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L ROME 0838

E.O. 11652: GDS

TAGS: ENRG, IT

SUBJECT: ENERGY: ITALIAN SITREP FOR ENERGY CONFERENCE

REF: STATE 12410

1. THE GOI TAKES A POSITIVE VIEW OF THE ENERGY CONFERENCE AND WILL ATTEND. THIS POSITION STATED BY DIRGEN POLITICAL AFFAIRS DUCCI TO US JANUARY 19. BEHIND THIS STATEMENT WE FIND A GENERAL THEME FROM SENIOR OFFICIALS OF GOVT AND STATE OIL COMPANY ENI THAT US INITIATIVE NECESSARY, AND THAT ONLY US COULD TAKE IT. GUI IS
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WATCHING EC PARTNERS CLOSELY, PARTICULARLY GOF, BOTH TO AVOID

GETTING OUT OF STEP AND THUS CONTRIBUTING TO EC DISUNITY AND TO TRY TO USE CONFERENCE AS IMPETUS TO COMMUNITY SOLIDARITY IN COMMON POLICY WHICH WILL MESH WITH CONFERENCE OBJECTIVES.

2. THE GOF AS A MEDITERRANEAN POWER WITH A DEEP INTEREST IN ARAB AFFAIRS HAS LONG BEEN SENSITIVE TO ANY ACTION WHICH MIGHT BE SEEN BY THE ARABS AS A THREAT. IN THE CONTEXT OF THE CONFERENCE, THIS TRANSLATES INTO SEEKING TO AVOID ITS BEING PERCEIVED AS A CLUB OF RICH INDUSTRIAL COUNTRIES GANGING UP ON THE ARAB PRODUCERS. LIBYA IS PARTICULARLY SENSITIVE ARAB COUNTRY. (LIBYAN PRIME MINISTER DUE TO VISIT ROME WEEK OF JAN 21) ENI GETS 40 PERCENT OF ITS CRUDE FROM LIBYA AND ITALY HAS IMPORTANT -- AND POTENTIALLY MUCH MORE IMPORTANT -- ECONOMIC INTERESTS THERE. ENI, WHICH HAS SIGNIFICANT INPUT INTO GOI ENERGY POLICY, HAS LONG ADVOCATED GOVT TO GOVT (OR NATIONAL COMPANY TO NATIONAL COMPANY) RELATIONS BETWEEN PRODUCERS AND CONSUMERS, THUS BYPASSING MAJORS AND HAS PUT THIS POLICY INTO EFFECT WITH LIBYA AND IRAQ WITH WHAT BY HINDSIGHT APPEARS TO HAVE BEEN FORSIGHT. WE EXPECT THAT ITALIANS WILL PRESENT THIS VIEWPOINT AT THE CONFERENCE SUGGESTING IN EFFECT THAT OIL IS TOO IMPORTANT TO BE LEFT TO THE OIL COMPANIES.

3. ONE SPECIFIC CONCERN IS PRICES BEING PAID BY INDEPENDENT COMPANIES FOR FREE OIL. ITALIANS HAVE DOUBLE CONCERNS: (A) PRICES OF \$15-22 BBL ARE SEEN BY PRODUCERS AS JUSTIFYING PRESENT RUINOUS POSTED PRICE LEVELS AND COULD LEAD TO FURTHER INCREASES AND (B) ITALY IS NOT ABLE, FOR INTERNAL PRICE AND BALANCE OF PAYMENTS REASONS, TO PAY THESE PRICES, IS OUTBID AND MUST REDUCE CONSUMPTION. ITALY WOULD BE GREATLY REASSURED AS A FIRST STEP IN THE OVERALL PRICE FIELD IF INCREMENTAL SUPPLIES COULD BE PURCHASED AT ABOUT THE PRICE OF CONCESSION, I.E., AROUND \$9 BBL. THIS SUBJECT IS OF DEEP CONCERN, HAVING BEEN RAISED BY PRIME MINISTER (ROME 13626), THE PRESIDENT OF ENI (MEMCON JAN 15, POUCHED EUR/WE AND EB/ORF/FSE); AND THE MINISTER OF FOREIGN TRADE (ROME 828).

4. BACKGROUND INFORMATION. ECONOMIC OUTPUT: MACRO ANALYSIS OF 1973 AND 1974 ECONOMIC AND FINANCIAL EFFECTS WILL BE FURNISHED IN COMPREHENSIVE ANALYTICAL SEPTEL WHICH HAS BEEN PREPARED IN RESPONSE STATE 7324. SEE ALSO OECD PARIS 1530 FOR CURRENT ITALIAN ASSESSMENT WHICH FORECASTS SOME SHORTFALL FROM 7.5 PERCENT POTENTIAL GNP GROWTH BUT NO MAJOR PRODUCTION CUTBACKS, FURTHER SEVERE DETERIORATION
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OF CURRENT ACCOUNT AND GRAVE BALANCE OF PAYMENTS SITUATION. ROME 14119 CONTAINS EARLIER ASSESSMENT.

5. POLITICAL IMPACT. DESPITE NONE TOO DEFT HANDLING OF OIL CRISIS (ROME 13813, 12882, 12397) RUMOR GOVT HAS NOT BEEN DAMAGED AND ITS LIFE IN THE SHORT RUN IS MORE DEPENDENT ON OTHER ISSUES (E.G., THE DIVORCE REFERENDUM) THAN THE ENERGY SITUATION. BY AND LARGE ITALIAN POPULATION HAS ACCEPTED AUSTERITY AS INEVITABLE (FOR BACKGROUND SEE

ROME 13211). GOI SHARES CONCERN OTHER INDUSTRIALIZED COUNTRIES OVER POSSIBLE POLITICAL CONSEQUENCES INFLATION AND ECONOMIC DISLOCATION CAUSED BY PRICE INCREASES BUT ENERGY CRISIS AT THIS POINT GIVES NO SIGNS OF ALTERING THE POLITICAL EQUILIBRIUM OF THE PARTY SYSTEM, PARTICULARLY SINCE NONE OF THE PARTIES, INCLUDING THE COMMUNIST PARTY, HAVE ANY SOLUTIONS OR CAN PROMISE IMPROVEMENT. IF THE ARAB STATES HAD PUT HEAVY AND CONCENTRATED PRESSURE ON ITALY IN NOVEMBER AND DECEMBER WHEN THE SUPPLY SITUATION WAS AN ACUTE THREAT, IT IS POSSIBLE THAT ITALY IN VIEW OF ITS VULNERABILITY WOULD HAVE HAD TO RESPOND. BY THE TIME OF THE VISIT OF THE ARAB EMISSARIES IN JANUARY (ROME 554 AND 660) PRICE, NOT QUANTITY, WAS THE ISSUE AND THE ARABS HAD NO INCENTIVES TO OFFER. ITALY REFUSED TO GO FURTHER THAN THE EC NOV 6 DECLARATION. PUBLIC CRITICISM OF GOI INACTION HELPED PROVOKE A TRIP TO SAUDI ARABIA BY A SENIOR OFFICIAL OF THE PRESIDENCY AND CONTRIBUTED TO GOI DECISION SEND FONMIN MORO TO MIDDLE EAST AT END THIS MONTH, BUT HAS NOT CAUSED SHIFT IN BASIC GOI POSTURE. GOI HAS MEDIUM TERM PLAN (ROME 828) FOR DIVERSIFICATION AWAY FROM MIDDLE EAST ARAB PRODUCERS.

6. PRESENT AND FUTURE MEASURES. ON NOV 22 GOI ADOPTED FAR-REACHING CONSERVATION MEASURES (ROME 12977) INCLUDING BAN ON SUNDAY DRIVING, SPEED LIMITS, PRICE INCREASES, AND CHANGED OFFICE AND BUSINESS HOURS. NO SIGNIFICANT CHANGES HAVE BEEN MADE. GAS RATIONING MAY BE IMPOSED IN THE SPRING (ROME 476) BUT DECISION AWAITS GOI DECISION ON FURTHER INTERNAL PRICE INCREASES PLUS DEVELOPMENTS IN SUPPLY AND PRICE OUTLOOK. ENTIRE AREA OF FUTURE RESTRICTIONS DEPENDS ON GOI EVALUATION, NOW UNDER WAY, OF HOW TO COPE WITH CRUDE PRICES INCREASES:

BY PERMITTING SHARP PRICE INCREASES WHICH WOULD LIMIT CONSUMPTION, RATIONING -- ALLOCATION SCHEMES OR A MIX, WITH THE BALANCE OF PAYMENTS SETTING THE CONSTRAINT ON IMPORTS. WE FIND GENERAL FEAR THAT ITALY WILL BE UNABLE TO CONTINUE TO IMPORT EVEN AT PRESENT REDUCED LEVELS OF CONSUMPTION IF PRICES REMAIN AT PRESENT LEVELS. CONFIDENTIAL

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7. WE UNABLE TO FURNISH ENERGY FACT SHEET IN THIS MESSAGE. IT WILL BE SENT IMMEDIATE TO ARRIVE OB JAN 21. VOLPE

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Message Attributes

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